



0854: Extension of ‘Virtual Last Resort User’ and ‘Contingent Procurement of Supplier Demand’ Triggers

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Context

- recent events have necessitated consideration of the consequences of a User (shipper) being subject to sanctions by the UK Government
- Shipper would not be able to transact with counterparties, and counterparties (including Transporters) would be unable to transact with it
 - in the immediate/short term a User Default may not be triggered - application of sanctions, in isolation, are not a User Default event (TPD Section V4.3.1)
 - a User Default may subsequently be triggered, for example if the Shipper is unable to make payment or resolve a Code Credit Limit breach

User Termination Triggers

User Default Event (V4.3.1)

- (a) Non-payment of =>£10k due for payment
- (b) Value at Risk > Code Credit Limit
- (c) Unresolved material breach capable of remedy by the User
- (d) Unresolved material breach not capable of remedy by the User
- (e) Insolvency (defaulting User)
- (f) Shipper Licence ceases to be in force
- (g) Energy Balancing failure to pay / increase credit limit
- (h) DSC Default
- (i) Trader User Default

Termination Notice (V4.3.3)

**Transporter may give notice
("Termination Notice") to the
Defaulting User**

Imbalance Risk: Current Arrangements for a Terminated User

- where a Shipper is subject to a Termination Notice, an associated Supplier(s) may act under a '**Deed of Undertaking**' until it makes arrangements with a new Shipper
- UNC provides **two** mechanisms which enable supplies of gas to be delivered to the system to balance the Supplier demand until a new Shipper is in place
 - **Virtual Last Resort User (VLRU)** – the Supplier uses other Shipper relationships to make trade nominations to the Terminated Shipper's account (TPD Section E10)
 - **Contingent Procurement of Supplier Demand (CPSD)** – National Grid Gas role (separate from Residual Balancing) that procures additional gas (TPD Section D6)
- only available where the relevant Shipper is subject to **Termination Notice**
 - VLRU mechanism introduced by Modification 0788 (1st Nov 2021)
 - CPSD mechanism introduced by Modification 0791 (2nd Mar 2022)

Imbalance Risk: Potential gap in the Arrangements

- a shipper subject to sanctions is not a “User Default” event and it therefore remains a party to the UNC
 - shipper will not be delivering gas to the Total System to meet the demand of any associated Suppliers
 - VLRU and CPSD mechanisms would be unavailable as a Termination Notice has not been issued
 - in absence of change it will fall on National Gas Transmission (as the Residual Balancer) to maintain an operational balance
 - presents risks as identified in Modifications 0788 and 0791 (high imbalance costs; recovered via Balancing Neutrality)

Proposed Solution

- extension of the triggers for availability of the VLRU and CPSD mechanisms to where a Shipper is subject to government sanctions
 - enables Suppliers and National Gas Transmission to efficiently procure gas supplies for impacted Supplier demand
- all of the relevant Shipper's Supply Point Registrations will be discontinued in order to trigger Supplier of Last Resort (SoLR) mechanism and to facilitate continuity of effective shipping arrangements
 - VLRU and CPSD mechanisms predicated on existing shipping arrangements **'coming to an end'**
 - expectation that the relevant Suppliers will subsequently make arrangements with alternative Shippers who will register Supply Points via the standard Supply Point Administration Process
- de-registration process triggered by issue of a notice to the shipper by National Gas Transmission
 - ~~Opportunity for Ofgem to 'dis-approve' if it does not agree with National Grid interpretation of sanctions~~

Modification Proposal 0813 (November 2022)

- Proposed this solution
 - Included ability for Ofgem to Disapprove issue of the cessation notice – the ‘User Premises Termination Notice (UPTN)
- Ofgem rejected UNC 0813 on 20th July 2023
 - *“our designated regulatory functions do not cover the arrangement in the proposal for the Authority to interpret and come to a view on whether a shipper is or will become sanctioned ...and, ...decide whether to disapprove NGT’s issuing of a UPTN. ...we consider that this role, ...is outside the vires of the Authority”.*

Governance Arrangements and Timeline

- Considered sufficiently material to require Authority Direction
- Workgroup Report due to be issued to the Modification Panel in January 2024

Thank you

